



Asset Valuation and Revaluation Policy

Category:

Adoption: Council Date: July 2019

Review Period: 2 Years

Responsible Manager: Manager, Infrastructure

Signed by CEO: 
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Date: 12.8.2019
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1. Purpose

The purpose of this policy is to specify Council's approach to valuations of non-current physical assets, subsequent to initial recognition, in order to satisfy its obligations in accordance with relevant Australian Accounting Standards (AASB 116), including method and frequency of revaluation. It provides direction for Council officers responsible for managing and accounting for Council's assets.

Whilst appropriate revaluations are required in order for Council to satisfy its obligations under relevant Australian Accounting Standards, knowledge of current asset values is also essential for efficient and effective asset management.

Application of this policy will provide consistency to deliver comparable valuations from year to year for both financial reporting and asset management purposes.

The initial recognition of assets is provided for in Council's Asset Recognition Policy.

2. Scope

The policy covers the financial valuation of non-current assets subsequent to initial recognition (initial recognition is stipulated as assets that have not previously been identified and valued in Council Asset management systems), including:

- The frequency of valuation;
- The method of valuation; and
- Roles and responsibilities of Council Officers.

This policy excludes:

- Valuations for insurance purposes.

3. Policy

3.1 Detail:

Application of this policy will ensure consistent processes to produce comparable valuations from year to year for both financial reporting and asset management.

For non-current assets, indexed historical cost will generally not provide a reliable measurement of fair value. Typically, only relatively short life, or low value assets, such as plant and equipment, office furniture and vehicles will continue to be carried at historical cost, as this is expected to provide a reasonable approximation of fair value for these short lived assets.

All other asset classes will typically be recognised at modern equivalent value. The modern equivalent value basis of recognition ensures that the consumption of non-current assets (depreciation expense) approximates the expected long term average costs to renew or replace those assets. This depreciation expense is accounted for via Council's comprehensive income statement.

The relevant current accounting standards include:

- AASB13 Fair Value Measurement
- AASB116 Property, Plant and Equipment
- AASB136 Impairment of Assets
- AASB1051 Land Under Roads
- AASB 16 Leases (Applies 2019/20)

3.2 Policy content:

This policy directs those Council officers who are charged with recording and accounting for Council's assets.

3.3 Frequency of valuation

In implementing this policy Council will:

- Review the financial valuation of Council owned or controlled non-current asset classes as at 30 June each year, including an assessment of impairment.
- Conduct revaluations in accordance with this policy, ensuring that each infrastructure asset class is revalued once every three years. Condition inspections will be undertaken in accordance with Councils Asset Management Plans.

3.4 Method of valuation

In implementing this policy Council will:

- Apply the adopted valuation method and minimum frequency for each asset class, as per the table below (after asset recognition).
- Ensure that condition assessments for each asset class are conducted in accordance with Councils Asset Management Plans.
- Ensure that Greenfield rates are applied to initial financial valuations where accurate construction data is available.

- Ensure modern equivalent valuation methodology is used to revalue infrastructure assets.
- Ensure all found or gifted assets are valued at the current modern equivalent valuation.
- Ensure that corporate systems record current values for reporting in audited financial statement with the Annual Report.

Council has elected to use the following model for each asset class, subsequent to initial recognition:

Asset Class	Model	Minimum Frequency	Projected Useful life (years)
Seals	Revaluation (Modern Equivalent)	3	15
Asphalt	Revaluation (Modern Equivalent)	3	30
Sealed Pavements Stable	Revaluation (Modern Equivalent)	3	60
Sealed Pavements Expansive	Revaluation (Modern Equivalent)	3	40
Pavements Gravel	Revaluation (Modern Equivalent)	3	18
Formations	Revaluation (Modern Equivalent)	3	∞
Bridges	Revaluation (Modern Equivalent)	3	100
Major Culverts	Revaluation (Modern Equivalent)	3	70
Kerb and Channel (Kerb Lined)	Revaluation (Modern Equivalent)	3	50
Urban table drain (Kerb Unlined)	Revaluation (Modern Equivalent)	3	20
Minor Culverts	Revaluation (Modern Equivalent)	3	100
Footpaths Rigid	Revaluation (Modern Equivalent)	3	50
Footpaths Flexible	Revaluation (Modern Equivalent)	3	30
Footpaths Gravel	Revaluation (Modern Equivalent)	3	18
Traffic Control Facility Cairn Island	Revaluation (Modern Equivalent)	3	50
Traffic Control Facility Barricade	Revaluation (Modern Equivalent)	3	30
Traffic Control Facility Pedestrian Crossing	Revaluation (Modern Equivalent)	3	30
Traffic Control Facility Roundabout	Revaluation (Modern Equivalent)	3	50
Traffic Control Facility Splitter Island	Revaluation (Modern Equivalent)	3	50
Traffic Control Facility Median Island	Revaluation (Modern Equivalent)	3	50

Traffic Control Facility Traffic Lights	Revaluation (Modern Equivalent)	3	30
Traffic Control Facility School Crossing	Revaluation (Modern Equivalent)	3	10
Traffic Control Facility Rail Crossing	Revaluation (Modern Equivalent)	3	10
Monuments	Revaluation (Modern Equivalent)	3	200
Buildings (Heritage)	Revaluation	3	100
Buildings (Non- Heritage)	Revaluation	3	50
Furniture & Fittings	Cost	N/A	
Computer Equipment	Cost	N/A	
Plant & Equipment	Cost	N/A	
Heritage Assets	Cost	3	
Land	Revaluation	3	
Land Under Roads	Revaluation	3	
Land held for resale	Cost	N/A	
Light Fleet	Cost	N/A	
Open Space	Cost	N/A	
Stormwater Drainage	Revaluation (Indexed)	3	100
Street Furniture	Cost	N/A	
Waste Water	Revaluation (Indexed)	3	60

3.5 Accounting for non-current asset valuation and revaluation

Australian Accounting Standards Board (AASB) publishes various standards for Council to comply with regarding non-current asset valuation and revaluation:

- Accounting Standard AASB 116, *Property, Plant & Equipment* ;
- Accounting Standard AASB 1049, *Whole of Government and General Government Sector Financial Reporting*;
- Accounting Standard AASB 13, *Fair Value Measurement*;
- Accounting Standard AASB 136, *Impairment of Asset*; and
- Accounting Standard AASB 16 (from 2019/20).

From 2019/20 AASB 16 will apply. The classification of leases as either finance leases or operating leases is eliminated for lessees. Leases will be recognised in the Balance Sheet by capitalising the present value of the minimum lease payments and showing a “right-of-use” asset, while future lease payments will be recognised as a financial liability. The interest charge will be calculated using the effective interest method, which will result in a gradual reduction of interest expense over the lease term.

Modern Equivalent (Fair) Value

The fair modern equivalent value of an asset is the amount for which an asset could be constructed, or purchased, between knowledgeable, willing parties in an arms-length transaction in the current financial market. Therefore, it is the best estimate of the price reasonably obtainable in the market at the date of valuation. The modern equivalent value of an asset is determined by reference to its highest and best condition and, as such, results in the highest value.

There are three levels in the fair value hierarchy:

Level 1 inputs	quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date e.g. shares
Level 2 inputs	inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly e.g. land and buildings
Level 3 inputs	unobservable inputs for the asset or liability e.g. roads and bridges

Many infrastructure assets in the local government sector have few or no alternative uses as they are extremely specialised and exist solely to meet community needs for economic or social facilities. If the fair value of an asset cannot be reliably determined using market based evidence its fair value is measured at its market buying price of either depreciated replacement cost (DRC) or net present value (NPV). Current market prices can usually be observed for land and non-specialised buildings.

Depreciated Replacement Cost (DRC)

DRC is the current cost of replacement (CRC) of an asset less deductions for accumulated depreciation, physical deterioration and all relevant forms of obsolescence. CRC is the minimum that it would cost to replace the existing asset with a technologically modern equivalent new asset with the same economic benefits/service potential.

4. Definitions

4.1 Assets

Resources controlled by Council which are expected to provide future economic benefits or service potential.

4.2 Asset Category

The top level at which a group of assets is recorded in Council's asset management system.

4.3 Asset Class

The main sub group of the Asset Category grouping assets of similar nature, used for asset management purposes (e.g. the Roads Asset Category is sub-divided into the Asset Classes Roads and Aerodromes).

4.4 Asset Financial Class

The top level at which a group of assets with a similar function are disclosed in the financial statements (e.g. Infrastructure, Property, Plant and Equipment).

4.5 Asset Hierarchy

A framework for segmenting assets into appropriate classifications, helping to define how assets are managed and how they are organised in the Asset Management System.

4.6 Asset Management System (AMS) / Asset Register

The corporate system used for recording details regarding all assets.

4.7 Components

Specific parts of an asset having independent physical or functional identity and having specific attributes such as different life expectancy, maintenance regimes, risk or criticality.

4.8 Condition Assessment

The process of continuous or periodic inspection, measurement and assessment of the condition of a specific asset so as to determine the need for preventative or remedial action.

4.9 Controlled Assets

Where Council controls the capacity to benefit from an asset, for example where assets are located on Crown Land for which Council is the Committee of Management, assets are considered controlled assets and included in the Asset Register.

4.10 Cost

The amount of cash paid or the fair value of the other consideration given to acquire an asset at the time of its original acquisition or construction. Where an asset is acquired at no cost, or for a nominal cost (as the case with developer and other contributed assets), the cost is its Modern Equivalent value as at the date of acquisition.

4.11 Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

- Annual Depreciation: An annual charge made for the purpose of allocating the depreciable amount of a depreciable asset over its useful life. Also known as Depreciation Expense.
- Accumulated Depreciation: The aggregate depreciation expense at a given point in time

4.12 Depreciable Amount

The cost of an asset less its residual value.

4.13 Modern Equivalent Value (ME Value)

The amount for which an asset could be exchanged, or liability settled between knowledgeable, willing parties in an arm's length transaction at the date the action is to be undertaken.

4.14 Impairment

The amount by which the carrying amount of an asset exceeds its recoverable amount.

4.15 Materiality

Acceptable margin of error and extent of disclosure required when preparing general purpose financial reports. Information is considered material if the omission, miss-statement or nondisclosure has the potential to influence economic decisions of the user of the report.

4.16 Non-Current Asset

A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity. Any asset which is not expected to be fully consumed, realised, sold or otherwise disposed of within one financial year.

4.17 Residual Value

The estimated amount that would be obtained from disposal of an asset, after deducting the estimated costs of disposal, if the asset was at the age and condition expected at the end of its useful life.

4.18 Recognition

The act of recording an asset as capital expenditure, found or gifted assets.

4.19 Revaluation

The act of recognising a reassessment of values of non-current assets at a particular date.

4.20 Useful Life

The time period over which an asset is expected to be available for use.

4.21 Valuation

The process of determining the worth of an asset or liability.

Different valuation methods may be appropriate in different circumstances:

- Greenfield Valuation: where the unit rates are based on the cost to acquire or construct the asset in an undeveloped location
- Brownfield Valuation: where the unit rates are based on the cost to replace the asset in its existing developed or built up location.

4.22 Traffic Control Facilities (TCF)

Facilities to control vehicle and pedestrian movement in a safe and efficient manner.

5. Roles and Responsibilities

Person/s Responsible	Accountability
Council	<ul style="list-style-type: none"> Stewardship of community assets
CEO	<ul style="list-style-type: none"> Policy approval
Asset Management Steering Committee	<ul style="list-style-type: none"> Oversight and monitoring of policy and procedure implementation
General Manager Corporate Performance	<ul style="list-style-type: none"> Reporting asset values in the financial statements Keeping information in the corporate finance system current
General Manager Infrastructure Assets & Planning	<ul style="list-style-type: none"> Responsible for all asset management activities.
Manager Finance	<ul style="list-style-type: none"> Processes all general ledger entries with regard to assets Performs all reconciliations with regard to assets
Coordinator Assets	<ul style="list-style-type: none"> Coordinating the collection of inventory, valuation and condition data Entry of all Capital infrastructure ledger breakdowns into Asset categories and financial module of assets system. Processes all information in the Asset Management System Assessment of asset impairments

6. Human Rights Statement

It is considered that this policy does not impact negatively on any rights identified in the Charter of Human Rights Act (2007). Central Goldfields Shire Council is committed to consultation and cooperation between management and employees.

7. Related Policies and Procedures

- Asset Management Policy;
- Asset Recognition Policy; and
- Risk Management Policy.

8. Relevant Legislation and Guidelines

- Local Government Act 1989; and
- Australian Accounting Standards.